

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 IO-13 ISO-00 L-03 CTME-00 AGRE-00
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TO SECSTATE WASHDC 756
INFO USMISSION GENEVA

C O N F I D E N T I A L HONG KONG 7176

GENEVA FOR PHELAN

DEPT PASS COMMERCE FOR DAS SHEPHERD AND LABOR OF ALSO DEP UNDER
SECRETARY BLACKMAN FROM MIKE SMITH

E.O. 11652: GDS
TAGS: ETRD, HK, US
SUBJECT: TEXTILES: US/HK BILATERAL ISSUES

REF: STATE 142268

1. SUMMARY. SMITH, MRS. BERRY, MRS. HABBERTON AND MCCA HILL
OF CONGEN MET WITH MILLS JUNE 6. RANGE OF ITEMS DISCUSSED
AND VIEWS EXPRESSED WOULD INDICATE NEED FOR EARLY ROUND OF
BILATERAL DISCUSSIONS. WEEK OF JULY 10 IN HONG KONG APPEARS
LOGICAL DATE. END SUMMARY.

2. WOOL SUITS - MILLS SAID 92,500 UNIT LEVEL UNACCEPTABLE.
HKG HAS NOT YET DECIDED HOW TO CONTINUE CONSULATIONS
ON SUITS OR WHO SHOULD LEAD HKG SIDE. MILLS ATTEMPTED TO LINK
ISSUE WITH FOOTWEAR MATTER (E.G., HONG KONG IS NUMBER FIVE
SUPPLIER OF BOTH), BUT SMITH STRONGLY ADVISED HIM TO AVOID
ANY LINKAGE OF TEXTILE AND FOOTWEAR ISSUES. SMITH SAID
THERE WAS NO WAY USG COULD AGREE TO 100,000 UNIT LEVEL,
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AND MILLS SAID HE UNDERSTOOD THAT.

3. SHIFT FROM KNITS TO WOVENS - SMITH ALERTED MILLS
THAT USG ANALYZING MEN'S TAILORED CLOTHING IMPORT PATTERNS
FROM HKG AND KOREA TO DETERMINE IF THERE HAD BEEN ANY
SHIFT FROM KNITS TO WOVENS. IF USG STUDY DETERMINED
THERE HAD BEEN, USG WOULD REQUEST CONSULTATION PER TERMS

OF BILATERAL.

4. 645/6 - BOTH MILLS AND SMITH AGREE 1979 LEVEL FOR 645/6 SHOULD BE DETERMINED PROMPTLY. SMITH SAID USG WOULD BE INTERESTED IN FURTHER REDUCTION FOR WHICH WE WOULD BE PREPARED TO PAY.

5. VISA LETTER - MILLS SAID DETAILS OF ANNEX D PERTAINING TO VISA STILL HAVE NOT BEEN AGREED TO AND THAT THIS SHOULD BE FINISHED UP PROMPTLY. SMITH SAID US SIDE THOUGHT MATTER HAD BEEN AGREED TO BUT WE WOULD CHECK FURTHER.

6. SPACING - SMITH EXPRESSED CONCERN THAT, IN VIEW OF MORE THAN 20 PERCENT INCREASE IN HKG IMPORTS IN FIRST THIRD OF 1978, SPACING PROVISIONS WERE NOT BEING STRICTLY ADHERED TO. MILLS WAS ASKED FOR PREVIOUS SHIPPING PATTERNS. COMMERCE OFFICE OF TEXTILES SHOULD ALSO REVIEW PAST TWO OR THREE YEARS' IMPORT PATTERNS TO DETERMINE IF THERE HAS BEEN ANY SIGNIFICANT SHIFTS AS HKG HAS REPEATEDLY ASSURED USTEXDEL (LYON AND GENEVA) THAT SURGES WOULD BE AVOIDED.

7. TARIFFS - MILLS IN ESSENCE APOLOGIZED FOR HKG SHIFTING SINGALS IN TARIFFS QUESTION, SAYING THAT HKG OPTING FOR TEXTILE TARIFF CUTS WAS ONLY TO MAINTAIN ITS POSITION WITH LDC'S. MILLS STILL IMPLIED THAT HKG IS NOT ANXIOUS TO SEE USG CUT THESE TARIFFS AS THAT WOULD IMPACT UNFAVORABLY ON HKG COMPETITIVE POSITION.
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8. RULES OR ORIGIN - MILLS SAID HKG ALSO BEING HURT BY EC RULES OF ORIGIN AND WOULD BE WILLING SUPPORT AND WORK WITH USG IN BRINGING PRESSURE TO BEAR ON EC. HE SAID HE WOULD BE MEETING WITH EC'S TRAN WEEK OF JUNE 19 TO DISCUSS INTER ALIA THIS MATTER. HE SUGGESTED WE CONTACT BURGESS OF HKG BRUSSELS OFFICE TO COORDINATE APPROACH TO EC.

9. NOTIFICATION TO TSB - SMITH ASKED WHEN EC/HKG BILATERAL WOULD BE NOTIFIED TO TSB. MILLS HAD NO IDEA, SAYING AGREEMENT HAD NOT BEEN FINALLY SIGNED AS INTERNAL EC QUOTAS FOR LAST FOUR YEARS NOT YET AGREED TO..US REP TO TSB SHOULD PERSUE THIS FURTHER. MILLS ALSO SAID IT WAS HIS UNDERSTANDING THAT EC HAS NOT FORMALLY SIGNED ANY OF ITS BILATERALS.

10. OVERSHIPMENTS - MILLS VENTURED THAT 1977 OVERSHIPMENTS WERE PART OF HISTORICAL CLASSIFICATION DIFFERENCES BETWEEN HKG AND USG. SMITH ALLOWED THAT THIS MIGHT BE SO BUT, NONEHELESS, UNTIL MATTER WAS STRAIGHTENED OUT, USG WOULD CHARGE OVERSHIPMENTS TO 1978 LEVELS. MILLS DID NOT OBJECT EXCEPT BY COMMENTING THAT HE THOUGHT THE 1978 BILATERAL WAS A NEW AGREEMENT (ACCORDING TO THE US) AND HENCE HOW COULD US CHANGE FROM OLD

TO NEW AGREEMENT. COMMENT: DESPITE NEW BILATERAL'S PROVISIONS WE STILL DO NOT SEEM TO BE HOME FREE ON THE CLASSIFICATION PROBLEM WITH HKG. THIS ISSUE MUST BE RESOLVED ONCE AND FOR ALL IF EQUITABLE IMPLEMENTATION IS TO BE ACHIEVED. END COMMENT.

11. REASONABLE DEPARTURES - SMITH ASKED MILLS IF HKG INTENDED TO RAISE MATTER OF DURATION OF REASONABLE DEPARTURES, E.E., WOULD HKG JOIN WITH SOME OTHER EXPORTING MFA, PARTICIPANTS IN QUESTIONING DURATION OF EC'S "DEPARTURES" FYI PHILIPPINES INDICATED ASEAN'S INTENDED RAISE THIS IN EITHER TSB OR NEXT TC. END FYI MILLS DID NOT GIVE DEFINITIVE ANSWER EITHER WAY OTHER THAN TO SAY HKG HAD RIGHT TO FULL REVIEW AFTER TWO YEARS WITH EC AS WELL AS CONSULTATION PRIVILEGE AT ANY TIME. MILLS PLANNED TO ASK EC FOR FURTHER INCREASES IN FABRIC WHILE IN BRUSSELS JUNE 19 AS ACCORDING CONFIDENTIAL

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MILLS, UK TEXTILE FINISHING PLANTS ARE RUNNING SHORT OF GREY CLOTH. IMPRESSION OF USTEXDEL IS THAT HKG IS WILLING TO LIVE WITH REASONABLE DEPARTURES FOR FULL FIVE YEARS OF ITS BILATERAL WITH EC, BELIEVING THAT EC WILL OF ITS OWN ACCORD HAVE TO EASE ITS RESTRAINTS TO OVERCOME SHORTAGES. USREP TO TSB SHOULD DISCREETLY INQUIRE OF OTHER EXPORTING TSB MEMBERS IF THERE ARE ANY PLANS AFOOT TO QUESTION DURATION OF DEPARTURES.

12. QUOTA DIVERSION - WHILE IN BANGKOK, USTEXDEL WAS ADVISED BY MRS. ORANUT THAT THAI TEXTILE FIRMS WERE BEING OFFERED CASH BY HONG KONG FIRMS TO ENABLE LATTER TO USE THAI QUOTA OR TO PERMIT TRANSHIPMENT TO USA. THAI GOVERNMENT OFFICIALS WARNED THAI INDUSTRY OF SEVERE CONSEQUENCES IF THIS OCCURED. MATTER WAS RAISED WITH MILLS WHO SAID THERE WAS NOTHING HKG COULD DO ABOUT THIS AND THAT HE WAS NOT SURPRISED TO LEARN ABOUT THIS. SMITH SAID THAT WHILE USG COULD UNDERSTAND HKG LEGAL POSITION, HKG HAD TO UNDERSTAND THAT USG WOULD BE DISTURBED IF MORE LIBERAL QUOTAS IT HAD GIVEN TO SMALLER, POORER SUPPLIERS WERE, IN EFFECT, BOUGHT OFF BY HONG KONG INTERESTS THUS DEPRIVING OPPORTUNITY FOR THOSE SUPPLIERS TO DEVELOP INDIGENOUS TEXTILE INDUSTRY. BOTH MILLS AND SMITH AGREE DTHIS MATTER SHOULD BE DISCUSSED FURTHER.

13. IN VIEW OF THE NUMBER OF TEXTILE ISSUES STILL OUTSTANDING BETEEN USG AND HKG, USTEXDEL BELIEVES A FULL SCALE CONSULTATION SHOULD BE HELD AS EARLY AS POSSIBLE, TIED IN WITH SIMILAR CONSULTATIONS WITH KOREA. MILLS IS AVAILABLE WEEK OF JULY 10 AND USTEXDEL BELIEVES WE SHOULD TARGET THAT DATE, AS ANY TIME LATER GETS INTO VACATION PROBLEMS BOTH WITH HKG AND USG TEXTILE OFFICIALS. VENUE SHOULD BE HONG KONG. US TEXTILE OFFICIALS SHOULD ALSO ANTICIPATE CONTINUED HKG EFFORT TO LINK TEXTILE ISSUES WITH FOOTWEAR MATTER. IMPRESSIONS OF USTEXDEL IS THAT HKG IS UPTIGHT ABOUT ANY OMA ON ITS FOOTWEAR EXPORTS, CONFIDENTIAL

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AND HKG MAY BECOME EVEN MORE HARDNOSED ON TEXTILE MATTERS
AS LONG AS FOOTWEAR PROBLEM IS STILL HANGING OUT.
SHOESMITH

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